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ANALYTICAL STUDY OF FINANCIAL MARKETS INDICATORS AND THEIR ROLE IN GDP: IRAQ FINANCIAL MARKET MODEL

Assist Prof Dr . Sawsan Kareem Hodan

College of Economics & Administration, University of AL Qadisiyah , Iraq

sawsan.aljubori@qu.edu.iq

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Keywords: Cognitive dissonance, Expected emotion, Immediate emotion, Overconfidence, Stock returns, Quantitative.

ABSTRACT

This research aims to clarify the impact of financial markets on economic development in Iraq by studying the relationship between the indicators of the iraq financial market and economic development index in Iraq GDP for the period 2004-2017, the research contained two aspects, one theoretical: focused on clarifying financial markets In terms of concept and types as well as indicators and focus on the iraq financial market and the other side applied: use quantitative methods to reach the impact of these indicators on economic development in Iraq, including the method of measuring the stability of time series to the research variables, and then measure the relationship between the impact of the research variables by the analysis of the common integration between the variables and test the long-term equilibrium relationship, the research reached a set of conclusions, the most important of which is that the relationship between GDP and the indicators of the -Iraq Financial Market model is a non-complementary relationship in addition to Research recommendations.

keywords: financial marketand, GDP, stability of time series

INTRODUCTION

The global economy is currently facing the difficulty of getting rid of the dependency inherent to the rentier sectors, especially developing countries (rentier economy inherent to the oil sector). And how to use the resources derived from the oil sector to contribute to the development of these sectors and increase their contribution to the GDP of the country, Iraq is one of those countries whose economy has this feature, and there is a strong correlation between the national economy and the sector Crude oil until the determination of stability or imbalance in it depends on the movement of

prices of this sector and its revenues and this led to the economy's exposure to external shocks constantly.

The development of the financial and banking sector is a desired goal that all governments in the world aim to achieve.Therefore, we must pay great attention to adopting a national strategy to increase financial competitiveness through increasing the efficiency of the Iraqi market for securities and thus the added value of them and thus increase its contribution to the GDP of the country.

Iraq has a huge potential of natural resources, which is an important element in the richness of the Iraqi economy, but the management of these resources was incorrect because of the lack of incentives to develop the production of goods outside this sector, which reflected negatively on it and caused serious imbalances in the composition of the structure of the economy, so It is necessary to diversify the economic base through strategic thinking to get out of the hegemony and control of oil experienced by Iraq, and therefore this research came to focus on the study of the relationship between the indicators of the Iraqi Iraq financial market and GDP of the Iraqi economy, through a study was conducted using a combination of statistical methods and programs.

Research Importance

The importance of the research and its scientific benefit is that it comes at a time when governments are showing increasing interest in the search for strategic alternatives to the period after the depletion of oil energies and diversification of sources of income, by focusing on the permanent wealth, including the financial sector and banking and increase its contribution to output The country's total domestic.

Research Problem

The research problem is "low efficiency of the financial sector, especially the Iraq Financial Market and low contribution to the GDP in Iraq," because of the low effectiveness or efficiency of some factors affecting the added value of this sector on the one hand, and the rent of the Iraqi economy and its dependence on the oil sector on the other side.

Research Hypothesis

Research hypothesis is (Iraq Financial Market has a significant role in the development of the Iraqi economy through the proportion of its contribution to the GDP).

Research Objectives

The research aims to clarify the impact of financial markets on the economic development in Iraq through the degree of its impact on the gross domestic product through a econmmetrics study using statistical methods and programs.

The temporal boundaries of the search

The period 2004-2017

Spatial boundaries of research

Iraqi Economy (Iraq Financial Market)

THE THEORETICAL ASPECT OF RESEARCH

The concept of financial markets

The financial market is the link between savings and investment through major channels represented by specialized tools and institutions. Financial markets create investment opportunities for cash balances (Frederic S, Mishkin: p: 6)

Financial markets are also defined as institutions dealing with investment issues in securities It sells and buys securities such as stocks and bonds, and its operations bear the returns and risk (Abdul Reda: 2013: p. 109)

There are those who defined it as a system whereby sellers and buyers are brought together for a particular type of securities.

They can complete the buying and selling operations through brokers and companies working in this field either inside or outside the market using effective networks and means of communication (Aldaemi: 2010: p. 120).

Frederick Mishkin sees it as the organizational and technical field through which funds are transferred from units with surplus funds to units that are deficient in these funds.

Based on these definitions, the Financial Market can be defined as a regulatory framework through which the two development axes (savers and investors) are combined for the purpose of transferring funds from surplus units to deficit units through the trading of Financial Market and their derivatives without the need for a physical location For seller contact with buyer.

Types of financial markets

Financial markets can be divided into more than one division according to a set of bases and standards as follows:

Money Market

A market in which short-term assets are traded, with a maturity of no more than one year. Money bills traded in the money market are debt instruments that give the person who owns them the right to recover the amount previously borrowed by another person with interest at the maturity period. For this person disposal is sold at any time (before the maturity period) and with minimal or no losses, (David Boddy: 2002: p14).

Short-term money lending for the investment of funds available for a temporary period, and lending money for the financing of temporary needs as well, in other words, the money market represents the meeting point of short-term investment with short-term financing.

The most important parties involved in this market are commercial banks and banking and financial institutions, especially specialized in addition to government agencies such as the Central Bank that sells and buys securities in addition to dealers and stock market brokers. In comparison with the rest of the capital market instruments due to the use of banks and commercial companies tools of the money market significantly and continuously because of these instruments provide liquidity and return at the same time, and the money market plays an important role in the national economy.

The importance of this role is reflected in the following aspects (Tamimi , Osama: 2004: p110-115):

- Securing liquidity for the banking system, where banks are able to invest their deposits in a safe and high liquidity.
- The money market plays an important role in determining the monetary policy of the state , The Central Bank effectively controls credit policy by intervening (directly and indirectly) in changing interest rates in the short term.
- The money market provides an opportunity for businesses with temporary excess liquidity to invest in instruments with very low return and risk and high marketing opportunities.

In this market, a group of short-term assets or securities in which debts are fixed are traded.

The diversity of these securities varies according to the degree of development of the state and the securities market therein:

- Treasury BiIIs
- Commercial Papers
- Banker’s acceptances
- Certificate of Deposit
- Repurchase Agreements

Capital Market

The capital market is defined as the market in which medium and long-term financial assets and liabilities are exchanged, such as shares with no fixed maturity.

Bonds payable after one year, and various bonds that can be converted into shares, In addition to medium and long-term direct loans, (Salam: 2004: p. 149)

Capital markets are usually used by governments, corporations, and businesses to raise funds for long-term purposes as their financing costs are low compared to other sources of financing such as commercial banks.

As we mentioned earlier, the capital market is a market for long-term Financial Market that are due after a long time, which carries a long burden and high risk, especially with regard to bonds (Shammari , and others : 1999: p. 188).

The most important instruments used in the capital market are Money bills (stocks and bonds).

They are the two main instruments traded in this market, both long-term financing instruments, Shares are called equity instruments, bonds are called debt instruments.

They are of several types as follows :-

Stocks

The stock refers to equity instruments with predominantly annual dividends, in addition to capital gains that are due to permanent changes in market share prices and have no maturity, but are disposed of by selling them in the financial market (AlAni: 2002: p. 199)

There are several types of stocks as follows:

Ordinary shares: the most common part or share of the capital and give to the owner of a number of rights, joint stock companies usually issue these shares that have the same face value and have the same rights and duties A stock is defined as a document of one nominal value that, is publicly tradable and indivisible. The stock takes three nominal value, book value, and market value (Khreoush, and others: 1995: p. 47).

In recent years, stocks have witnessed a new trend and new types of ordinary shares have emerged, most notably: ordinary shares according to the divisions of the company, ordinary shares with discounted dividends, and ordinary shares guaranteed .

Preferred stocks: These shares are decided by those who own more than planned for those who own ordinary shares, such as the priority in obtaining profits, even if there is no remaining shareholders of any ordinary share of the profits to be distributed (Alshawra: 2008: p 83; Yildiz & Kilic, 2020; Yildiz et al., 2020; Ruiz, 2020; Santana Vilorta, 2020)

Bonds

A bond is defined as a certificate of obligation under which the issuer undertakes to pay the value of this obligation to those who purchase this bond at the date of a certain maturity documented and fixed in the certificate with a pre-determined interest rate.

Bonds are also defined as financial undertakings between the investor and the issuing company in which the latter undertakes to return these funds at a certain date with the payment of interest on the borrowing in annual installments (Jabr: Ibid: P 38).

The most recent trends in bonds are as follows: (ALAni: 2002: p 201):

- Bonds do not carry a coupon rate
- Variable or floating interest bonds

- low quality bonds
- Income bonds

Stock Market Performance Indicators

A market index is defined as: a numeric value that measures changes in the stock market, This index is created and its value initially determined, and then the index value is compared at any point in time.

This leads to the possibility of knowing the market movements up or down, as the index reflects market prices and trends.

The market index or set of indicators is a real measure of the performance of the stock market in developed or developing countries (Al-Ghazali: 2004: p. 7)

It summarizes the overall performance of the market, and because the index consists of companies in different economic sectors, it is an easy way to convert the performance of the economy to a quantitative picture, it can be a clear reference for the investor in the stock market.

One of the most important functions of indices is to represent the stock market when measuring systematic risk in individual assets or investment portfolios as the index is an agent (Proxy) for a particular market(Auriacombe & Sithomola, 2020; Makhalima, 2020; Meyer & Hassan, 2020; Ncube & Koloba, 2020; Nel, 2020; Mupamhadzi & Maloma, 2020).

By calculating the relationship between asset returns and the market index, the systematic risk calculation is used as a key variable in the asset pricing model to determine the required returns that are equivalent to the risk of the asset and the portfolio.

To measure the performance of the stock market there are a number of indicators that reflect the degree of market development and progress, the most important of which are the following:

Market size: The market size is measured by two main indicators:

A: Market Value Index (market capitalization)

It means the total value of shares listed on the market multiplied by the average price at the end of the period.

The market capitalization rate is often measured by dividing the market value of shares listed on the stock market by GDP (ALdame: 2008: p. 107)

A group of economic analysts believe that market capitalization is closely linked to the ability to mobilize capital and diversify risks (Ross Levine & Sara Zervos, 1996 : p. 10)

The market capitalization index is a mirror that reflects the level of market activity.

B: Number of companies index: This index refers to the number of companies listed on the stock market (regulated market), as the increase in the number of companies reflects the development in the financial market in general (Mohammed: 2005: p. 65)

Market liquidity: There are two basic indicators to measure the liquidity of the stock market are (ALMoussawi: 2009: p 56):

1. Stock turnover: This indicator refers to the percentage of trading of shares of a specific company or shares of a group of companies within a single sector for the purpose of identifying the activity of these shares in the trading market during a certain period of time, and to extract this index we follow the following formula:

   Turnover rate = total shares traded / market value x 100

2. Volume Index: The value of shares and bonds traded at various prices during a certain period of time. This index is measured by dividing the total shares traded on the stock market by the gross domestic product. The regulated trading index of corporate stocks is measured as a percentage of GDP and therefore reflects liquidity in the economy in general, It is preferable to use both indicators in order to obtain sound information about the financial market.

   To extract this indicator we follow the formula:

   Volume = number of shares traded / GDP

General Stock Price Index
It is a statistical indicator used as a measure of the general movement in the market consisting of a group of securities reflecting the state of the entire market, and in the case of the rise of this indicator assumes that the market as a whole is high and when it decreases the market as a whole decreases, and its importance significantly through its use by all parties involved in the market It is used to measure market trends and price movements as a whole (Shendi: 2013: p 167).

THE APPLIED SIDE OF THE RESEARCH:
THE IMPACT OF FINANCIAL MARKETS ON THE GROSS DOMESTIC PRODUCT IN IRAQ

The reality of the indicators of the Iraqi market for financial 3:1:A: Reality of the Iraq Financial Market Indicators for the Period (2004-2017)

Through the development of the work of the Iraq Financial Market since its inception in (2004) until (2017) provided a set of indicators representing the evolution of the market activity, and is represented by the number of shares traded, trading volume, market value, and the number of companies listed in the market and the general index of the market, We will focus on three indicators, which can be illustrated in the following table:

Table (1)
Trading Securities of Iraq Financial Market for the period (2004-2017)

General Stock (Price Index ISX)	Market Value MV (Billion dinars)	TV volume (Billion dinars)	Years
64.99	1711	128	2004

General Stock (Price Index ISX)	Market Value MV (Billion dinars)	TV volume (Billion dinars)	Years
45.64	3160	367	2005
25.29	1949	147	2006
34.59	2129	427	2007
58.36	2283	301	2008
100.86	3126	412	2009
100.98	3446	400	2010
136.3	4930	941	2011
138.18	4664	894	2012
113.15	9563	2845	2013
998.20	9541	901	2014
730.56	9265	495	2015
649.48	9355	516	2016
832.2	10721	900	2017

Source: Annual Reports Group of the Iraq Financial Market for the period (2004 – 2017).

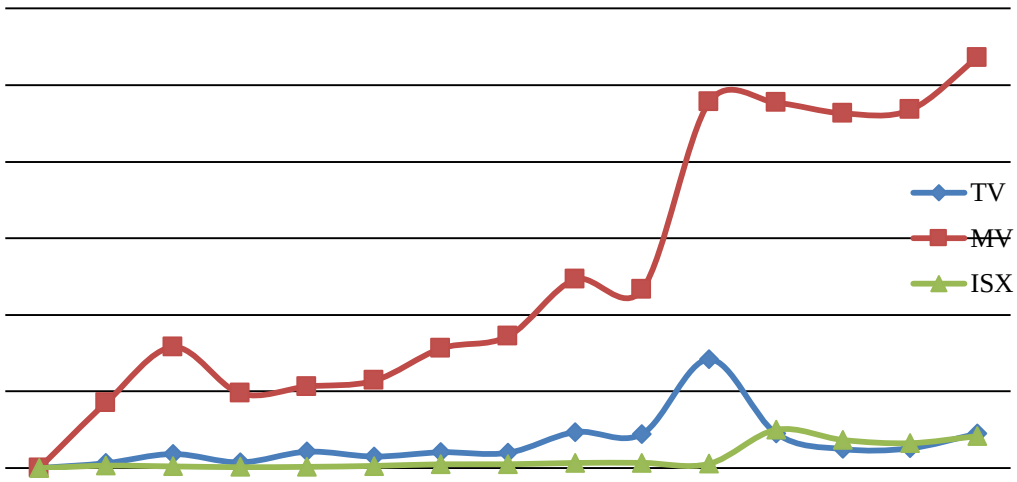
From Table 1 we note the following :-

- TV volume: The trading volume of shares in the Iraq Financial Market increased from (128) billion Iraqi dinars in (2004) to reach (367) billion Iraqi dinars in (2005) with an increase of (186.7%), due in 2006 to decrease as it reached The volume of trading in that year (147) billion Iraqi dinars and the reason for the decline is due to the increase in the unemployment rate and high inflation, to return the volume of trading after that to rise in 2017 as it reached (900) billion Iraqi dinars.
- Market value of traded shares: The market value in 2004 amounted to (1711) billion Iraqi dinars to be taken up later to reach 2017 to (10721) billion dinars, the reason for this rise is a combination of factors including: Improved security situation in the country, the application of investment law that encouraged the entry of companies Foreign trade, the implementation of electronic trading activity and the activation of the database in the market, all these reasons led to this increase in the amount of market value.
- General Market Index: The movement and change of share prices according to the objective factors related to the environment and the investment climate in the economy is an important means that guide investors in the stock market in determining and making their investment decision (Handoyo et al., 2020; Helmi et al., 2020; Odilon et al., 2020; Osokina et al., 2020; Jiang et al., 2020; Kong & Zhao, 2020; Brichieri-colombi, 2020; Grajetzki, 2020).
- The index of stock prices in the Iraq Financial Market was fluctuating and fluctuating, as we note from Table (1) that the value of the index reached in 2004 (64.99) points and its value in 2006 decreased by (45%) to reach (25.29) Point.
- The reason for this decline is due to the decline of most sector index indices and these indicators are calculated to measure changes in the share prices of listed companies for each sector, and the index of the Iraqi market for securities in 2007 to reach (34.59) points Due to the rise of most sectoral index indices, As of 3/9/2009, the market has adopted a new general index to close the index at the end of 2009 at (100.86) points. This increase in the value of

the index reflects the improvement of investment activity in securities. (113.15) points due to the decrease in the number of companies listed in the market during that year, and then rose again to reach (832.2) points in 2017

The indicators of the Iraq Financial Market for the period (2004-2017) can be illustrated as (1)

Figure (1)
Indicators of the Iraq Financial Market for the period (2004-2017)



Source: From the work of the researcher based on the data of table (1)

Reality of GDP in Iraq for the period (2004-2017)
It is noted from Table (2) that the gross domestic product has been characterized by fluctuation once increase and growth and again decline, which rose from (85.7) trillion Iraqi dinars in 2004 to (266) trillion dinars in 2017, and can be the main reason for this increase Oil exports in addition to the high prices of this sector, which is the main feeder of the economy of Iraq.

Table (2)
Gross Domestic Product (GDP) period (2004-2017)

Growth Rate Annual% (2)	**Gross Domestic Product Trillion Iraqi dinars (1)**	**Years**
---	85.7	2004
4.40	73.5	2005
10.15	95.6	2006
1.37	111.5	2007
10.33	157.0	2008
5.61	130.6	2009
7.26	162.1	2010
11.39	217.3	2011
219.55	254.2	2012

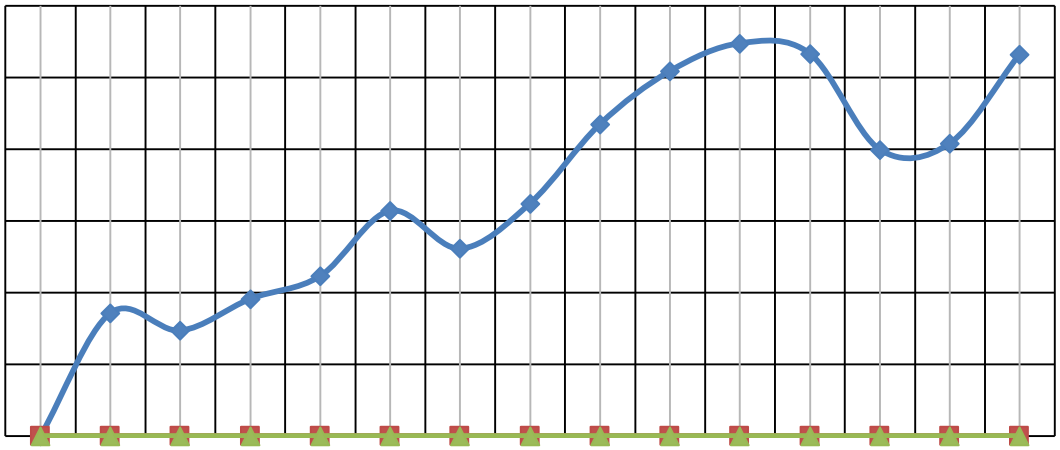
Growth Rate Annual% (2)	Gross Domestic Product Trillion Iraqi dinars (1)	Years
3.26	273.6	2013
- 11.83	266.4	2014
-13.67	199.7	2015
7.47	203.9	2016
30.4	266.0	2017

Source:
Column (1)

- Ministry of Planning and Development Cooperation, Central Statistical Organization and Information Technology, National Accounts Department
- Arab Monetary Fund, Arab Unified Economic Report, various annual bulletins.
- Column 2 of the researcher's calculation

The path of GDP growth rates in Iraq for the period (2004-2017) can be illustrated in

Figure (2)
GDP growth rates in Iraq for the period (2004-2017)



Source: From the work of the researcher based on the data of table (2)

Measure the stability of time series of search variables using Unit Root Test

Table (3) shows the results of the unit root test for the GDP data series in Iraq, where the Dicky-Fuller Extended Test (ADF) showed that the time series is unstable without a fixed limit and a general trend even with a fixed limit and at the significant levels (1% and 5). As well as when the analysis of the existence of a fixed limit with a general trend of the chain at all previous levels of significance, but when performing the analysis by taking the first difference of the series with a fixed limit, the series became stable at the level of significance (10%), which means that the series Stable and integrated class I ~ 1 This leads to rejection of the null hypothesis and acceptance of the thesis Delh that any stable chain when the first teams and free from the root of the unit. As well as the market value Mv was not stable only at the first difference and the presence of a fixed limit at all levels of moral mentioned.

The ADF test also showed that the data series of the TV volume and the general index of ISX stock prices are stable at the level without a fixed limit or even a general trend at the significant levels (1%, 5% and 10%) for the volume and at (5%). And 10%) for the general stock price index. This means that it is stable and integrated of the degree (0) ~ I and this leads to the rejection of the null hypothesis and accept the alternative hypothesis that these chains are stable at their level and free from the root of the un

Table (3)
(ADF test) for the series of GDP data and indicators of the Iraqi Iraq Financial Market in Iraq for the period (2004-2017)

Variable		The Level			First difference
		No fixed limit and general direction	With a fixed limit	With a fixed limit and a general trend	With a fixed limit
Gross domestic product		0.194023	-1.425314	1.089656-	-2.881600
Significant level	%1	-2.771926	4.420595-	-5.295384	-4.420595
	%5	-1.974028	-3.259808	-4.008157	-3.259808
	%10	-1.602922	-2.771129	-3.460791	-2.771129
TV volume		-3.500526			
Significant level	%1	-2.792154			
	%5	-1.977738			
	%10	-1.602074			
TV volume		0.459489	-0.892024	-2.072357	-3.516693
Significant level	%1	-2.771926	-4.121990	-4.992279	-2.792154
	%5	-1.974028	-3.144920	-3.875302	-1.977738
	%10	-1.602922	-2.713751	-3.388330	-1.602074
ISX		2.295582			
Significant level	%1	-2.816740			
	%5	-1.982344			
	%10	-1.601144			

Source: The work of the researcher based on the statistical program Eviews.

The Econmmetrics Model for the Relationship between the Financial Markets Indicators and the GDP in Iraq for the Period (2004-2017)

The ARDL model
Through the stability test of the time series of the variables in question, it was found that some time series are stable and integrated of class (1) ~ I and others are stable at their level (0) ~ I, that is, they are free from the root of the unit and integral of

different ranks and this obliges us to test them According to the ARDL model, a common integration test is used when data are stable and integrated at different levels. The idea of joint integration (cointegration) dates back to Granger (1981) and then developed this idea significantly from Engel-Granger (1987) (Engle and G Ranger C.W: 1987: p55)

The joint integration between the GDP and the ISX indices was tested according to the ARDL model as shown below

Estimation of the relationship between the GDP and the indicators of the Iraq Financial Market for the period (2004-2017) in the short term:

In order to conduct a joint integration test, we first tested the short-term relationship between the GDP and the indicators of the Iraq Financial Market in Iraq for the period 2004-2016 in a simple way the least squares method.

It emerged from the output that the indices of the Iraq Financial Market were weak impact on the gross domestic product in Iraq according to the formula below.

GDP = - 6.113 -0.063 ISX + 0.050 MV-0.000174 TV

Measuring the integral relationship according to ARDL

After it emerged from the output that the indicators of the Iraq Financial Market were weak impact on the gross domestic product in Iraq when it was estimated in the short term now turn to estimate in the long term and test whether these indicators will have an impact on the GDP in the long term Is it A long - term equilibrium relationship between these variables was measured by testing the boundaries according to the ARDL Bounds Tes co - integration model as shown in the table below.

Table (4)
To estimate the relationship between the GDP and the indicators of the Iraq Financial Market for the period (2004-2017)

ARDL Bounds Test		
Test Statistic	Value	K
F-statistic	0.705354	3
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.72	3.77
5%	3.23	4.35
2.5%	3.69	4.89
1%	4.29	5.61

Source: The work of the researcher based on the statistical program Eviews.

After the test, which shows us the common integration equation according to the boundary test ARDL Bounds Test shown in the table above showed that the equation is not integrated as the value of F-statistic (0.705354) was less than the minimum, and this indicates that the equation is not integrated There is a long-term equilibrium relationship between both the GDP and the indicators of the Iraq Financial Market.

Error correction test:

Next we go to the error correction step as shown in the table below

Table (5) shows that the error correction coefficient is (-1.033) and this refers to the process of short-term to long-term correction at a speed of 1.03%
The equation for long-term joint integration is
Cointeq = GDP = -138.366 - 0.508ISX + 0.113MV -0.003TV

Table (5)
Error correction test to estimate the relationship between the GDP and the Iraqi market indicators for the period (2004-2017) according to ARDL Cointegrating And Long Run Form

ARDL Cointegrating And Long Run Form				
Dependent Variable: GDP				
Selected Model: ARDL(1, 0, 1, 0)				
Date: 08/14/19 Time: 14:37				
Sample: 2004 2017				
Included observations: 13				
Cointegrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(ISX)	-0.525482	0.218932	-2.400202	0.0533
D(MV)	0.028746	0.033309	0.863024	0.4213
D(TV)	-0.003498	0.002268	-1.542039	0.1740
CointEq(-1)	-1.033905	0.634358	-1.629843	0.0243
Cointeq = GDP - (-0.5082*ISX + 0.1134*MV -0.0034*TV -138.3669)				
Long Run Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
ISX	-0.508250	0.410498	-1.238130	0.2619
MV	0.113370	0.050712	2.235578	0.0668
TV	-0.003383	0.003128	-1.081692	0.3209
C	-138.366885	94.124414	-1.470042	0.1919

Source: The work of the researcher based on the statistical program Eviews.

CONCLUSIONS

1. As for the hypothesis of the research, it has not been proven as the required effect of the indicators of the Iraq Financial Market on the gross domestic product has not been achieved. We therefore accept the null hypothesis which states that there is no relationship or weak relationship between the GDP of Iraq and the indicators of the Iraq Financial Market.

2. The time series of the research variables within the studied period are stable and integrated of different ranks, some of them were stable and integrated of the degree (1) ~ I, others were stable at the level of zero (0) ~ I .

3. The analysis of joint integration supports economic theory by modeling the relationships between economic variables in a statistical framework..

   The results of the analysis proved that there is no common integration relationship between the GDP of Iraq and the indicators of the The time series of the research

variables within the studied period are stable and integrated of different ranks, some of them were stable and integrated of the degree (1) ~ I, others were stable at the level of zero (0) ~ I . in the long term according to the model Ardal

4. The results of the analysis showed a correction of the relationship between the GDP in Iraq and the indicators of The time series of the research variables within the studied period are stable and integrated of different ranks, some of them were stable and integrated of the degree (1) ~ I, others were stable at the level of zero (0) ~ I , from short to long term with a speed of up to 1.03%

RECOMMENDATIONS

1. Increase the volume of trading in the The time series of the research variables within the studied period are stable and integrated of different ranks, some of them were stable and integrated of the degree (1) ~ I, others were stable at the level of zero (0) ~ I . to lead to a clear impact on the rate of GDP growth in Iraq.

2. The need to benefit from the high international oil prices in the establishment of sovereign funds dedicated to investment in Iraq, which leads to achieve some kind of economic development.

3. We must take advantage of successful international experiences in the field of sophisticated financial markets and the application of its procedures on the Iraqi economy in a manner commensurate with the reality.

4. The need to create some kind of integration between the GDP in Iraq and the indicators of The time series of the research variables within the studied period are stable and integrated of different ranks, some of them were stable and integrated of the degree (1) ~ I, others were stable at the level of zero (0) ~ I .

5. The need to study the subject and expand it by other researchers, especially graduate students in the stages of masters and doctoral because of this topic of great importance to the Iraqi economy.

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